

# SCOTTISH BORDERS COUNCIL AUDIT COMMITTEE

MINUTES of Meeting of the AUDIT  
COMMITTEE held in via Microsoft Teams on  
Monday, 12 February 2024 at 10.00 am

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Present:- Councillors E. Thornton-Nicol (Chair), N. Richards (Vice-Chair), J. Anderson, J. Cox, M. Douglas, J. PatonDay, E. Robson, S. Scott and Mr P. Whitfield

In Attendance:- Chief Executive, Director Finance and Procurement, Director Corporate Governance, Chief Officer Audit and Risk, Principal Internal Auditor (S. Pow), Chief Officer Finance and Procurement Services (L. Turner), Corporate Risk Officer (E. Elder), Internal Auditor (F. Thompson), Statutory Reporting and Treasury Business Partner (K. Robertson), Ms J. Law (Audit Scotland) and Democratic Services Officer (W. Mohieddeen).

## **EXTERNAL MEMBER**

The Chair advised that notification had been received that Mr Steven Whalley had resigned from the Audit Committee and thanked Mr Whalley for his service. The recruitment process for a new external member of the Audit Committee was to get underway.

### 1. **MINUTE**

There had been circulated copies of the Minute of the Meeting held on 13 November 2023. Mr Whitfield requested that the comment from Mr Whalley that there had appeared to be an apparent governance failure should have a response from SBC Management. Mr Robertson advised that the matter Mr Whalley raised had been addressed at the Meeting held on 27 June 2023 with regard to the asset allocation set out for common good and trust funds investment policy whereby Mr Robertson advised that the parameters set out in the investment strategy were guidelines, the management of the common good and trust fund investments were delegated to investment managers and they were free to move beyond those guidelines if market conditions directed.

## **DECISION**

**AGREED to approve the Minute for signature by the Chair.**

### 2. **AUDIT COMMITTEE ACTION TRACKER**

There had been circulated copies of the Audit Committee Action Tracker. It was noted that the actions related to the Minute of the Meeting held on 13 November 2023 were complete and that the remaining actions were ongoing.

## **DECISION**

**NOTED the action tracker.**

### 3. **DIRECTOR RISK MANAGEMENT PRESENTATION**

3.1 The Chair introduced the Director Finance and Procurement to give a presentation on corporate risks for which she was the designated risk owner, risks in the Finance and Procurement service, and to summarise the various responsibilities of the directorate. The structure and responsibility of officers in the service were presented to the Committee. Corporate Risk 033 – Financial Sustainability was summarised and the Director Finance and Procurement advised was a topic that had been raised through financial monitoring discussions. The Council had experienced significant financial pressures during 2023-24 and was operating beyond the base recurring budget in place

which was a result of significant inflation increases along with significant service demand increases, particularly in out-of-area placements for young people which itself was a corporate risk that was reported to CMT. SBC had been reliant on one-off financial resources which can help to buy time for organisational change but can only be regarded a temporary arrangement. The key mitigation of the risk is that SBC are planning its transformation programme to deliver on the service change required to ensure that services are delivered within the permanent available budget.

3.2 Service risks summarised by the Director Finance and Procurement were:

- Capital programme data
- SPOFs (single points of failure)
- Taxation liabilities
- Treasury management
- Pension fund stability and sustainability
- Project risk management
- Challenge to procurement outcome

3.3 The project risk management was shown as having increased which was identified as being due to a change in risk scoring rather than material change in the nature of the risk. Otherwise the risks presented to the Committee were shown to have been stable over the reporting period. The Financial Strategy Risk Register contained 16 risks which was last reviewed in January-February 2024 prior to its inclusion in the suite of budget papers that were to be presented to Scottish Borders Council on 29 February 2024.

## **DECISION**

**NOTED the presentation.**

## **4. DRAFT TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2024-25**

There had been circulated copies of a report by Director Finance and Procurement that was enable the Audit Committee to undertake their scrutiny role in relation to the Treasury Management activities of the Council. It presented the proposed Treasury Management Strategy for 2024-25 for consideration prior to Council approval. CIPFA (Chartered Institute of Public Finance and Accountancy) defined Treasury Management as 'the management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'. The Treasury Management Strategy was the framework which ensured that the Council operated within prudent, affordable limits in compliance with the CIPFA Code. The Strategy for 2024-25 to be submitted to Council on 29 February 2024 was included in the report at Appendix 1 and reflected the impact of the Administration's draft Financial Plans for 2024-25 onwards on the prudential and treasury indicators for the Council. The Director Finance and Procurement summarised the report and answered Members' questions. In response to a question, the Director Finance and Procurement advised that work was ongoing with how indicators were reported using the International Financial Reporting Standards (IFRS) 16 and that information on leases was being gathered and that this work would likely continue through 2024-25 with a conclusion to come in 2025-26. The inclusion of leases may have an impact on the Authorised Limit in the Strategy; however, this would be monitored. The Chief Executive added that close liaison was ongoing with Link the Council's treasury advisers who were providing software and technical expertise to assess impact on prudential and treasury indicators. Discussions were ongoing with Link with regard to the impact of increased interest rates. It was recognised that interest rates were not at a favourable level to be locked-in to long-term borrowing; however over the next year short-term borrowing arrangements had been considered. The Chair thanked the Director Finance and Procurement and the Finance and Procurement team for the work on the report, the way the report was presented and for the training session on Treasury Management from Link on 6 November 2023. Following the discussion, Members agreed that a training session be organised on the differences between IFRS 16 and UK GAAP.

## **DECISION**

- (a) AGREED to RECOMMEND to COUNCIL the draft Treasury Management Strategy for 2024-25 for approval; and,**
- (b) AGREED that a training session be organised for Members on the difference between IFRS 16 and UK GAAP.**

### **5. INTERNAL AUDIT WORK TO DECEMBER 2023**

There had been circulated copies of a report by Chief Officer Audit and Risk that provided members of the Audit Committee with details of the recent work carried out by Internal Audit and the recommended audit actions agreed by Management to improve internal controls and governance arrangements. The work Internal Audit had carried out in the period from 28 October to 31 December 2023 associated with the delivery of the approved Internal Audit Annual Plan 2023-24 was detailed in the report. A total of 6 final Internal Audit reports had been issued. There were 8 recommendations made associated with 4 of the reports (0 High-rated; 1 Medium-rated; 7 Low-rated). An Executive Summary of the final Internal Audit assurance reports issued, including audit objective, findings, good practice, recommendations (where appropriate) and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, was shown in Appendix 1 of the report. The SBC Internal Audit function conformed to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of the report to communicate the results of the reviews. The Chief Officer Audit and Risk advised that the financial governance assurance audit on 'VAT' was proposed to be rescheduled to the Internal Audit plan for 2024-25. The Chief Officer Audit and Risk summarised the report and answered Members' questions and advised that discussions with SBC Management was taking place on cybersecurity as part of audit planning for 2024-25. A number of different works were taking place in SBC on cybersecurity and there was recognition of its importance. On VAT, the Chief Executive advised Members that there was an experienced team working on VAT returns which was also subject to HMRC audit. SBC minimised risk by using accountancy firms with specialised tax advice including for VAT. With regard to school attendances, while schools were able to put in place their own processes, there were inconsistencies in compliance with corporate policy. Some issues remained around clarity of roles and responsibilities between schools and business support staff. A Quality and Recruitment Manager was revising the attendance policy as there was an opportunity to provide greater clarity and guidance, and this report was due to be submitted for approval in due course. Members agreed that this part of the report should be drawn to the attention of the Education Sub-Committee.

## **DECISION**

- (a) AGREED**
  - (i) to approve the minor amendments to the Internal Audit Annual Plan 2023/24, as set out in paragraph 4.8;**
  - (ii) to draw to the attention of the Education Sub-Committee the report on revised attendance policy;**
- (b) NOTED:**
  - (i) the Executive Summaries of the final Internal Audit assurance reports relating to with work Internal Audit has carried out in the period from 28 October to 31 December 2023 (Appendix 1 of the report) associated with the delivery of the approved Internal Audit Annual Plan 2023-24;**

- (ii) **the Internal Audit Consultancy and Other Work carried out in accordance with the approved Internal Audit Charter; and,**
- (iii) **the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.**

6. **PROGRESS ON IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS Q3 2023-24**

There had been circulated copies of a report by Chief Officer Audit and Risk that provided Members of the Committee with a further requested update on the status of the implementation by Management of audit recommendations made and agreed in Internal Audit reports. Internal Audit was an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examined, evaluated and reported on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk. The Internal Audit activity added value to the organisation (and its stakeholders) when it considered strategies, objectives, and risks; strived to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provided relevant assurance. The Remit of the Audit Committee included the function to consider “all matters relating to the implementation of recommendations contained within internal audit reports”, as part of its high-level oversight of the framework of internal control, risk management and governance within the Council. The Chief Officer Audit and Risk summarised the report.

**DECISION**

- (a) **AGREED that progress was satisfactory;**
- (b) **NOTED:**
  - (i) **the progress made by Management in implementing Internal Audit recommendations to improve internal controls and governance, and mitigate risks; and,**
  - (ii) **that Internal Audit will continue to monitor the completion of outstanding recommendations and will provide update reports to this Committee.**

7. **ACCOUNT COMMISSION LOCAL GOVERNMENT IN SCOTLAND FINANCIAL BULLETIN 2022-23**

There had been circulated copies of the Accounts Commission Local Government in Scotland Financial Bulletin 2022-23. The Chief Officer Audit and Risk noted that the bulletin was presented to CMT and formed the basis of conversations with Finance and Procurement officers to ensure the recommendations therein were considered and acted upon. There were relevant recommendations including achievement of recurring savings and transparency of the ever-increasing challenging financial environment for Scottish Borders Council, linked with the Corporate Risk 033 – Financial Sustainability.

**DECISION**

**NOTED the report.**

*The meeting concluded at 11.19 am.*